

Minneapolis Community Development Agency

Request for City Council Action

Date: October 17, 2002

To: Council Member Lisa Goodman, Community Development Committee,

Prepared by Bob Lind, Manager, Business Finance, Phone 612-673-5068

Approved by Chuck Lutz, MCDA Interim Executive Director _____

Subject: A Public Hearing and Request for Preliminary and Final Approval of up to \$250 Million in 501(c)(3) Tax-exempt Health Care System Revenue Bonds for Allina Health System (Abbott-Northwestern Hospital Project).

Previous Directives: Allina Health System has made use of tax-exempt revenue bonds in the past for other projects. The most recent was in 1998 for \$150 million as a joint issue with the City of Saint Paul to finance hospital equipment and improvements to buildings at various locations.

Ward: 6th and 8th Wards

Neighborhood Group Notification: On September 27, 2002 the Phillips West and Midtown Phillips groups were notified of this pending project by Allina Health System.

Consistency with *Building a City That Works*: The improvements to the Abbott Northwestern Hospital campus and the Phillips Eye Institute are consistent with Goal 4 of preserving and enhancing the urban institutions and amenities that define Minneapolis.

Comprehensive Plan Compliance: Allina Health System complies with the policies of the Minneapolis Plan.

Zoning Code Compliance: The medical facilities are zoned high density office-residential, OR-3-Institutional Office Residence District.

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Impact on the MCDA Budget:

- ☐ No financial impact
- ☐ Action requires an appropriation increase to the MCDA Budget
- ☐ Action provides increased revenue for appropriation increase
- ☐ Action requires use of contingency or reserves
- ☒ Other financial impact (Explain): The issuance of 501(c)(3) tax-exempt revenue bonds will generate annual administrative fees that are used to support the small business assistance programs of the City.

Living Wage/Business Subsidy: Does not apply. The project is a 501(c)(3) conduit financing that is not subject to Living Wage/Business Subsidy.

Job Linkage: The Agency will work with Allina on a job linkage agreement incorporating their existing Train-To-Work Program, a four-week work-readiness program that pays participants while they receive life skills management and on-the-job training; and the Health Careers Institute Program that provides college-credit training in entry-level skilled health care positions.

Affirmative Action Compliance: In compliance.

RECOMMENDATION:

City Council Recommendation: The Interim Executive Director recommends that the City Council adopt the attached Resolution, a summary of which will be published following a Public Hearing held on October 17, 2002 notice of which was published in Finance and Commerce on September 28, 2002, giving Preliminary and Final Approval to the issuance of up to \$250 Million in 501(c)(3) Tax-exempt Health Care System Revenue Bonds for Allina Health System.

Background/Supporting Information

PROJECT LOCATION AND DESCRIPTION:

Allina Health System is a Minnesota non-profit corporation that delivers health care services to patients in Minnesota and western Wisconsin. Allina owns and operates eleven hospitals. Allina's share of the Minneapolis-St. Paul metro area's acute care hospital market was 32% in 2001.

The project that Allina Health System proposes to fund with the issuance of up to \$250 million in tax-exempt revenue bonds includes the following:

- Construction of a five-story heart hospital addition at Abbott Northwestern Hospital to support the expansion of cardiology services. Will include 128 private patient rooms and allow co-location of all cardiology-related diagnostic, surgical and therapeutic treatment services. In addition, Abbott Northwestern Hospital plans to construct three additional floors of shell space above this heart hospital for future expansion of cardiac and other services. The building will be located on the eastside of the campus along 10th Avenue South and south of the Piper Building. When completed in 2005, the

heart hospital building will add 380,000 sq. ft. of much needed space, centralizing the hospital's 128-cardiac beds in private rooms and allowing space for future growth.

- Construction of a three-story addition to the neurosurgical and orthopedic centers at Abbott Northwestern Hospital.
- Construction of a 1,000 car parking ramp adjacent to the hospital campus on land recently purchased from the MCDA as part of the Sears project at 28th and Chicago. The hospital currently leases surface parking on three lots in the Sears development district on a month-to-month basis. This new ramp will provide long-term parking for current employees as well as address the needs of the new heart hospital.
- Construction of an ambulatory services building to be located next to the current Phillips Eye Institute at 2215 Park Avenue. This new facility will be dedicated to ear, nose and throat services, particularly directed at the pediatric market.
- Construction of a three-story addition to Mercy Hospital located at 4050 Coon Rapids Blvd. in Coon Rapids, MN for expansion of the cardiology services.
- Acquisition and installation of information technology hardware and software at Abbott Northwestern Hospital, Phillips Eye Institute, Mercy Hospital in Coon Rapids and Unity Hospital located at 550 Osborne Road in Fridley, MN.

TYPE OF FINANCING:

It is anticipated that up to \$250 million in 501(c)(3) tax-exempt revenue bonds will be sold to institutional and retail buyers with bond insurance as a credit enhancement through the efforts of the underwriting team of Merrill Lynch, Piper Jaffray and RBC Dain Rauscher.

Sources:

Tax-exempt Revenue Bond Series 2002	\$250,000,000
Total	\$250,000,000

Uses:

Project Costs: Construction of heart hospital, parking ramp, addition to Phillips Eye-Institute, addition to Mercy Hospital and hospital equipment.	\$220,000,000
Debt Service Reserve	20,000,000
Issuance Costs	10,000,000
Total	\$250,000,000

In addition to the issuance of 501(c)(3) tax-exempt revenue bonds, the City has also approved a \$6.7 million pay-as-you-go Tax-increment Financing Note towards the \$18 million development cost of the parking ramp to be constructed.

PRESENT EMPLOYMENT:

Allina Health System employs 24,000 persons throughout their system of facilities with 5,200 employed in Minneapolis facilities.

NEW EMPLOYMENT:

A minimal number of new jobs is expected to be generated, although, the project will help retain all the existing jobs.

ASSESSOR'S ESTIMATED
ANNUAL TAX INCREASE:

Hospital facilities are generally tax-exempt based on their 501(c)(3) non-profit status.

AFFIRMATIVE ACTION COMPLIANCE:

In compliance.

MCDA IRB POLICIES:

Job Component

Minimum standard of one (1) job per 1,000 square feet of building area.

Allina Health System: In compliance.

Property Improvements

No more than 25% of the bond proceeds may be used for land and acquisition. If purchasing an existing building, an amount equal to at least 15% of the acquisition cost must be spent on rehabilitation expenditures.

Allina Health System: All property needed for the various projects is either already owned by Allina or is being purchased from the MCDA in the case of the land needed for the parking ramp and does not constitute more than 25% of the bond proceeds.

Development Standards

Compliance with the Land Use Plan of the City's Comprehensive Plan.

Allina Health System: Project complies.

Equipment Financing

Limited to companies that create or preserve a significant number of jobs, and the equipment financed must be sufficiently secured. No more than 10% of the bond proceeds may be used to finance movable equipment not constituting a fixture.

Allina Health System: Various pieces of hospital equipment for the hospital facilities, the majority of which are considered fixtures.

Restaurant/Bank	IRB financing is allowed for a restaurant or a bank if it is built or rehabilitated in an MCDA Redevelopment Area. No more than 25% of the bond proceeds can be used to finance retail food and beverage establishments, automobile dealerships or recreation or entertainment facilities. <u>Allina Health System:</u> N.A.
Tax-exempt Institution	Refinancing is permitted when new jobs are created or when a significant number of jobs is preserved; any interest cost savings must directly reduce patient costs. <u>Allina Health System:</u> N.A. No refinancing as part of this project.
<u>IRB CAP:</u>	The project is not subject to the volume cap, in that the project is exempt from income tax under Internal Revenue Code Section 501(c)(3) for its exempt purposes and is classified thereunder as a non-profit organization.
<u>BOND COUNSEL:</u>	Dorsey & Whitney
<u>UNDERWRITER:</u>	Merrill Lynch & Company U.S. Bancorp Piper Jaffray RBC Dain Rauscher, Inc.

AUTHORIZING THE ISSUANCE AND SALE
OF REVENUE BONDS OF THE CITY ON BEHALF OF
ALLINA HEALTH SYSTEM AND THE EXECUTION OF DOCUMENTS

WHEREAS, this Council has received a proposal that the City of Minneapolis (the “City”) issue its revenue bonds (the “Bonds”) under Minnesota Statutes, Sections 469.152 to 469.165 (the “Act”) for the purposes of (a) financing a portion or all of the cost of a proposed project (the “Project”), on behalf of Allina Health System, a Minnesota nonprofit corporation (the “Corporation”), (b) funding a deposit to the debt service reserve fund securing the Bonds, and (c) paying certain costs of issuance of the Bonds.

WHEREAS, the Project consists of:

(a) Acquisition and installation of items of equipment and the remodeling and improvement of the following existing facilities of the Corporation:

Abbott Northwestern Hospital, located at 800 East 28th Street, Minneapolis, Minnesota (the “Abbott Hospital Site”); Mercy Hospital, located at 4050 Coon Rapids Boulevard, Coon Rapids, Minnesota (the “Mercy Hospital Site”); Phillips Eye Institute, located at 2215 Park Avenue, Minneapolis, Minnesota (the “PEI Site”); and Unity Hospital, located at 550 Osborne Road, Fridley, Minnesota (the “Unity Hospital Site”);

(b) Construction of an eight-story addition to Abbott-Northwestern Hospital for restructuring and expansion of cardiology services and other use at the Abbott Hospital Site; construction of a three-story addition to Abbott-Northwestern Hospital for expansion of orthopedic and neurosurgical services at the Abbott Hospital Site; construction of a three-story addition to Mercy Hospital for expansion of cardiology services at the Mercy Hospital Site; construction of an ambulatory services center at the PEI Site; and construction of a 1,000 stall parking ramp in the vicinity of the southeastern corner of the intersection of Chicago Avenue South and East 28th Street in the City to serve the Abbott Hospital Site; and

(c) Acquisition and installation of information technology hardware and software at: 2750 Park Avenue, Minneapolis, Minnesota; the Abbott Hospital Site; the PEI Site; the Mercy Hospital Site; and the Unity Hospital Site.

WHEREAS, at a public hearing, duly noticed and held on October 17, 2002, in accordance with the Act and Section 147(f) of the Internal Revenue Code of 1986, as amended, on the proposal to undertake and finance the Project, all parties who appeared at the hearing were given an opportunity to express their views with respect to the proposal to undertake and finance the Project, and interested persons were given the opportunity to submit written comments to the City Clerk before the time of the hearing.

WHEREAS, this Council hereby finds that the issuance and sale of up to \$250,000,000 aggregate principal amount of the Bonds in one or more series under the authority contained in the Act to finance the Project would promote the purposes contemplated and

described in Section 469.152 of the Act and further promote the public purposes and legislative objectives of the Act by providing health care services at the lowest possible cost to residents of the City and surrounding area is in the best interest of the City and the City hereby determines to issue and sell such Bonds.

WHEREAS, pursuant to a Joint Powers Agreement (the “Joint Powers Agreement”) to be entered into by the City, the City of Coon Rapids (“Coon Rapids”) and the North Suburban Hospital District, Anoka and Ramsey Counties (“NHSD”) pursuant to Minnesota Statutes, Section 469.155, subdivision 9, and Minnesota Statutes, Section 471.656, subdivision 2(4), Coon Rapids and NHSD will consent to the issuance of the Bonds by the City to finance the portions of the Project located in their jurisdictions.

WHEREAS, the proceeds of the Bonds will be lent (the “Loan”) by the City to Corporation, in order to finance all or a portion of the cost of the Project, to fund a debt service reserve fund for the Bonds and to pay certain costs of issuance of the Bonds.

WHEREAS, pursuant to a Loan Agreement (the “Loan Agreement”), to be entered into between the City and Corporation, a copy of which has been presented to the Council at this meeting and which has been reviewed to the extent deemed necessary, Corporation will issue to the City its Obligation or Obligations (whether one or more, the “Obligations”). The Obligations will be issued under the Master Trust Indenture (the “Master Indenture”), dated as of October 1, 1998, between Corporation and Wells Fargo Bank Minnesota, National Association, formerly known as Norwest Bank Minnesota, National Association, as trustee (the “Master Trustee”), as supplemented and amended by the Eighth Supplemental Master Indenture (the “Eighth Supplemental Indenture”) to be entered into between Corporation and the Master Trustee. Under the Obligations Corporation will unconditionally agree to repay the Loan made by the City under the Loan Agreement in specified amounts and at specified times sufficient to make the necessary payments of principal of, premium, if any, and interest on the Bonds, when due. In addition, the Loan Agreement contains provisions relating to the payment by Corporation of administrative costs of the Bond Trustee (as hereinafter defined), the administrative fee of the City, indemnification, insurance and other agreements and covenants which are required by the Act or which are permitted by the Act and which the City and Corporation deem necessary or desirable for the sale of the Bonds.

WHEREAS, pursuant to an Indenture of Trust (the “Bond Indenture”) to be entered into between the City and Wells Fargo Bank Minnesota, National Association, as Trustee (the “Bond Trustee”), a copy of which has been presented to the Council at this meeting and which has been reviewed to the extent deemed necessary, the City assigns and pledges all of its right, title and interest in the Loan Agreement (other than the right of the City for indemnification and administrative expenses), the Obligations, the Master Indenture and the Supplemental Indenture to the Bond Trustee. In addition, the Bond Indenture, among other things, sets the interest rates, maturity dates and redemption provisions for the Bonds, establishes the various funds and accounts for the deposit and transfer of money and contains other provisions which are required by the Act or which are permitted by the Act and which the City and Corporation deem necessary or desirable in connection with the sale of the Bonds.

WHEREAS, the Bonds will be special limited obligations of the City payable solely from amounts payable by Corporation under the Obligations, other than to the extent payable from the proceeds of the Bonds. The Bonds shall not be payable from or charged upon any funds other than the revenue pledged to the payment thereof, nor shall the City be subject to any liability thereon. No holder or holders of any Bond shall ever have the right to compel any exercise of the taxing power of the City to pay any such Bond or the interest thereon, nor to enforce payment thereof against any property of the City except the Obligations. The Bonds shall not constitute a debt of the City within the meaning of any charter, constitutional or statutory limitation.

WHEREAS, the Bonds will be purchased from the City by Merrill Lynch & Co., U.S. Bancorp Piper Jaffray Inc. and RBC Dain Rauscher Incorporated (the "Underwriters") pursuant to a Bond Purchase Agreement (the "Bond Purchase Agreement") between the City, Corporation and Merrill Lynch & Co., on behalf of itself and the other Underwriters, a copy of which has been presented to the Council at this meeting and which has been reviewed to the extent deemed necessary.

WHEREAS, a draft of a Preliminary Official Statement, related to the Bonds, has been presented to the Council at this meeting and has been reviewed to the extent deemed necessary. The Preliminary Official Statement will be distributed by the Underwriters to potential purchasers of the Bonds.

NOW, THEREFORE, BE IT RESOLVED, in order to provide for the financing of all or a portion of the costs of the Project, the City hereby authorizes the issuance of the Bonds as revenue bonds under the Act in one or more series, in the aggregate principal amount of up to \$250,000,000 (exclusive of any portion representing original issue discount). The Mayor, the City Clerk and the City Finance Officer are hereby authorized to approve the purchase price of the Bonds, provided that the purchase price equals or exceeds 98% of the principal amount of the Bonds less any portion of such principal amount which represents original issue discount; the aggregate principal amount of the Bonds, provided that such principal amount is not in excess of \$250,000,000 (exclusive of any portion representing original issue discount); the maturity schedule of the Bonds, provided that the Bonds mature at any time or times in such amount or amounts not exceeding 30 years from the date of issuance thereof; the provisions for prepayment and redemption of the Bonds prior to their stated maturity; and the interest rates of the Bonds, provided that no interest rate exceeds 7.00% per annum. Such approval shall be conclusively evidenced by the execution of the Bond Purchase Agreement as provided herein. The issuance of the Bonds to finance the Project shall be subject to approval of the Project by the Minnesota Department of Trade and Economic Development (the "Department").

FURTHER RESOLVED, each Bond shall be executed on behalf of the City by the manual or facsimile signatures of the Mayor, the City Clerk and City Finance Officer, and its corporate seal (which may be in facsimile) shall be thereunto affixed, imprinted or engraved. The Bonds when executed and delivered shall contain a recital that they are issued pursuant to the Act. The Bond Trustee is hereby designated as authenticating agent pursuant to Minnesota Statutes, Section 475.55. If any of the officers who shall have signed or sealed any of the Bonds shall cease to be such officers of the City before the Bonds so signed and sealed shall have been actually authenticated by the Trustee or delivered by the City, such Bonds nevertheless may be

authenticated, issued and delivered with the same force and effect as though the person or persons who signed or sealed such Bonds had not ceased to be such officer or officers of the City.

FURTHER RESOLVED, the Bond Indenture, the Loan Agreement, and the Joint Powers Agreement are hereby made a part of this Resolution as fully as though set forth in full herein and are hereby approved in the form submitted to this meeting, and the Mayor, City Clerk and City Finance Officer are hereby authorized and directed to execute, acknowledge and deliver the Bond Indenture, the Loan Agreement and the Joint Powers Agreement on behalf of the City with such changes, insertions and omissions therein as do not change the substance of the Bond Indenture, Loan Agreement or the Joint Powers Agreement and as may be approved by the Mayor, City Clerk and City Finance Officer, such approval to be evidenced conclusively by their execution of the Bond Indenture, the Loan Agreement and the Joint Powers Agreement.

FURTHER RESOLVED, the City hereby consents to the distribution by the Underwriters to potential purchasers of the Bonds of a Preliminary Official Statement in substantially the form submitted to the Council at this meeting, and the distribution by the Underwriters of an official statement by the Underwriters to purchasers of the Bonds in substantially the form of the Preliminary Official Statement. The City has not and will not participate in the preparation of the Preliminary Official Statement and has made no independent investigation with respect to the information contained therein or in the appendices thereto, and the City assumes no responsibility for the sufficiency, accuracy or completeness of such information.

FURTHER RESOLVED, the Bond Purchase Agreement is hereby made a part of this Resolution as fully as though set forth in full herein and is hereby approved in the form submitted to this meeting and, upon the determination of the terms of the Bonds (within the limitations set forth herein) and the execution of the Bond Purchase Agreement by Corporation and by Merrill Lynch & Co., on behalf of itself and the Underwriters, the Mayor, City Clerk and City Finance Officer are hereby authorized and directed to execute the Bond Purchase Agreement on behalf of the City, with such further changes, insertions or omissions therein as do not change the substance of the Bond Purchase Agreement and as may be approved by the Mayor, City Clerk and City Finance Officer, such approval to be evidenced conclusively by their execution of the Bond Purchase Agreement.

FURTHER RESOLVED, the Mayor, the City Clerk, the City Finance Officer and all other officers of the City are hereby authorized and directed to execute and deliver all other documents which may be required under the terms of the Bond Indenture, the Loan Agreement, the Joint Powers Agreement or the Bond Purchase Agreement, and to take such other action as may be required or appropriate for the performance of the duties imposed thereby or to carry out the purposes thereof.

FURTHER RESOLVED, in the absence or disability of the Mayor, the City Clerk, the City Finance Officer or any other officer of the City named in any instrument to be executed on behalf of the City in connection with the issuance of the Bonds, the acting Mayor, Assistant City Clerk, Deputy Finance Officer or other officer may execute such instrument. The

execution of any instrument by an officer of the City shall be conclusive evidence of its approval.

FURTHER RESOLVED, the City Finance Officer is hereby designated for all purposes of the Loan Agreement, the Bond Indenture and the Bond Purchase Agreement as the City official authorized to execute on behalf of the City certificates, requests or consents as provided in the Loan Agreement, the Bond Indenture and the Bond Purchase Agreement.

FURTHER RESOLVED, the bonds are hereby designated "Program Bonds" and are determined to be within the "Health Care Program" and the "Program", all as defined in Resolution 88R-021 of the City adopted January 29, 1988, and as amended by Resolution 97R-402 of the City adopted December 12, 1997.